Why Did You Betray Me, My Friend? When Selling Extended Warranty Backfires

Peter Mathias Fischer, University of St. Gallen, Switzerland

Robin Chark, National University of Singapore, Singapore

This paper identifies a negative effect when a firm sells warranty. When offer to buy a warranty, consumers' betrayal aversion is activated and their trust in the brand decreases. This effect of betrayal aversion is found to be moderated by the relationship norm between the firm and the consumer.

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EXTENDED ABSTRACT

Many brands sell extended warranties as add-on services to their customers to provide extra coverage on top of the base warranty. Since its sales often contribute more to firms' profits than the sales of the original products (Chen at al. 2009), such developments are not surprising. Despite the importance of extended warranties, knowledge about its consequences on the brand, however, is scarce at best. Prior research either took a descriptive perspective by examining which customer segments were particularly inclined to make extended warranty purchases (Chen et al. 2009) or exclusively focused on the positive signaling effects of bundling the base warranty with a product (Bearden and Shimp 1982; Shimp and Bearden 1982). In the latter, it is argued that such a strategy sends positive signals (Lutz 1989) because only high quality brands are able to provide it without extra charges (Boulding and Kirmani 1993). How do consumers react to the brand having been offered an extended warranty? The positive signaling literature suggests that brand trust would increase if a base warranty is bundled with the sales of the product. However, we expect brand trust to be shaken if firms intend to sell extended warranty separately.

Two potential mechanisms might be responsible for this detrimental effect. First, the mere mentioning of a warranty may remind consumers that there is a certain risk involved with the product (Grewal, Gotlieb and Marmorstein 1994). Alternatively, consumers may also interpret the sales of an extended warranty as an attempt to exploit them, thereby activating their innate betrayal aversion (e.g., Gershoff and Koehler 2011). Our research aims to examine the latter, while ruling out the former. Building on work from Grayson, Johnson, and Chen (2008), we make a distinction between generic concepts of trust and more specific concepts of trust such as brand trust and investigate their interactions. Broad-scope trust was found to be positively correlated with narrow-scope trust (Grayson, Johnson, and Chen 2008). This finding supported the institutionalists' view that broad-scope trust is a catalyst of narrow-scope trust (Bachmann 2004). If betrayal aversion is the mechanism, brand trust lowered by extended warranty offers should make consumers more suspicious in general and thus also decrease broad-scope trust. Similarly, lowered broad-scope trust should nurture the negative effect of selling extended warranties on narrow-scope trust. However, contrary to the predictions by the institutionalists, enhanced brand trust by bundling a lengthy warranty should not have an effect on general trust because it does not activate consumers' betrayal aversion. In a similar vein, enhanced broad-scope trust should not restore hampered brand trust after betrayal aversion has been activated.

We finally identify the relationship based on different norms (Aggarwal 2004; Clark and Mills 1993) between firms and consumers as a boundary condition. While relationships having a more intimate and interpersonal character (i.e., relationships built on communal norm) are expected to be highly susceptible to the negative effect of selling extended warranty on brand trust, relationships having a rather matter-of-fact character (i.e., relationships built on exchange norm) are expected to be relatively immune to the betrayal effect.

Participants in study 1 (N=50) were recruited from MTurk. They were asked to imagine that they were looking for a purchase of a new television. We provided them with product information and told them that they would be interested to purchase the latest model from a (hypothetical) brand. We manipulated the company's warranty policy and assigned participants to one of three conditions: (1) warranty with five-year coverage, (2) control with regular one-year warranty, or (3) extended warranty offer by the company. The base warranty in (3) was the same as the one in (2). After the purchase of extended warranty, the scope and coverage of (1) and (3) were identical. Having raised some filler tasks, we asked participants to indicate their brand trust (Herbst et al. 2012). Confirming the assumptions behind the signaling literature, brand trust is enhanced if participants were shown the bundled warranty vs. the control condition. Most importantly, compared with control, brand trust, however, was shaken after an offer to purchase an extended warranty.

Participants in study 2 (N=54) were recruited from MTurk. Different from study 1, participants were told that they were to take part in two seemingly unrelated studies. Having answered the first part of the study, we directed them to a trust game (Berg et al. 1996). We asked them to imagine that they had been given $10 and that they were able to send none, some, or all of it to an anonymous person whom they will never meet. On the way to this person, the amount would be tripled and the other person could decide on how much money she would send back to the participant. Contrast analysis reveals a spillover effect of lowered narrow-scope trust on lowered broad-scope trust but no positive spillover of enhanced narrow-scope trust. Participants were both willing to send the highest amount of money to the other person and expected the other person to send the highest amount of money back to them if they were offered to purchase an extended warranty in the seemingly unrelated study.

Study 3 (N=50) was conducted online with students from a European business school. Prior to the main study, we implemented a seemingly unrelated study to manipulate their broad-scope trust. They either had to elaborate on a situation they could trust somebody or on a situation they felt betrayed. A control condition in which they had to write a story based on a few pictures with neutral contents was added. In the main study, all participants saw condition (3) in study 1 in which they were exposed to an extended warranty offer. As hypothesized, we found brand trust to be lowest if participants had been previously exposed to the betrayal prime but not significantly higher in the trust prime versus the control condition.

Results from studies 2 and 3 together support the betrayal aversion explanation. Whereas both lowered narrow- and lowered broad-scope trust spilled over, enhanced trust did not. Alternatively, as pointed out above, having reminded participants that there is a nonzero chance of the product to break down provides another possibility to trigger the effect. However, without invoking the concept of betrayal, it cannot explain results in studies 2 and 3.

Study 4 (N=94) was conducted in the experimental lab of an Asian business school and employed a 2 (extended warranty offer: present vs. absent) × 2 (relationship norm: communal vs. exchange) between-subjects design. Participants were either offered to purchase an extended warranty or they were assigned to a control condition only mentioning the regular warranty. As a second factor, we manipulated the relationship norm between the firm and the consumer (Aggarwal 2004). Our results reveal a significant interaction between both factors on brand trust. Whereas the extended warranty offer hurts brand trust in communal relationships, the contrast is non-significant in the exchange relationship condition.

Overall, our research captures another tension between short-term value appropriation and long-term value creation (Mizik and

Jacobson 2003). It further identifies that consumers are vulnerable to the activation of betrayal aversion which is responsible for the negative effect of selling extended warranties on brand trust. Building on relationship norm theory, the findings highlight that trying to establish long-term relationships with consumers by means of communal norms (Aggarwal and Larrick 2012; Fournier 1998) eventually backfires if firms simultaneously intend to profit from the sales of extended warranties.

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